

Daniel Cancelmi

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1 A. This first page is a summary of the
2 items that went through the income statement.
3 Q. Right.
4 A. Second page is the items that did
5 not go through the income statement.
6 Q. And then what's the third page that
7 says, "Graduate system restructuring," what's
8 this a list of?
9 A. That's the list of the items on the
10 first page.
11 Q. Okay. The reserves, the
12 restructuring reserves that are referenced on
13 the first page, those reserves are the ones --
14 are listed on item three, right? On page 3,
15 right?
16 A. Yes.
17 Q. Now, if we flip the page, it says,
18 "in addition to the reserves recorded on the
19 income statement outlined above."
20 Does that mean in addition to the
21 reserves that are listed on this third page,
22 behind this page?
23 A. Yes.
24 Q. "Certain reserves have been
25 recorded as part of the purchase price

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1 is the fact that it was an odd life, because
2 goodwill is generally amortized over 40 years.
3 And I can't remember if Spargo told
4 me or Adamczak told me that it was going to be
5 35 years. And it was sort of like, well, where
6 did that come from, 35 years. That was my
7 understanding.
8 Q. The point is that there were a
9 series of reserves created, restructuring
10 reserves created while the Graduate entities
11 were in the SDN ownership. Right so far?
12 A. Yes.
13 Q. Those reserves are the ones that
14 are listed on the next page.
15 A. That's correct.
16 Q. And that's this page that lists
17 these various items by month, by description,
18 and by Graduate entity in which they repose?
19 A. Yes.
20 Q. Some of these reserves are reserves
21 that were used to fund the \$21 million and
22 \$28 million transfers we talked about earlier,
23 right?
24 A. Yes.
25 Q. But the first 50 million doesn't

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1 allocation, which are not reflected on the
2 income statement. Rather, these reserves have
3 been capitalized on the balance sheet as an
4 intangible asset, which will be amortized over
5 35 years. This accounting treatment has been
6 discussed with Coopers & Lybrand, who agrees
7 with this approach as these reserves are viewed
8 as unrecorded preacquisition contingencies."
9 Do you see that?
10 A. Yes.
11 Q. Were you the one who discussed
12 these reserves with Coopers & Lybrand?
13 A. I was one of several people, my
14 understanding.
15 Q. All right. As of May 21, 1997, you
16 were one of several people who had discussed
17 with Coopers & Lybrand the creation of these --
18 or the recording of these reserves as described
19 in that paragraph?
20 A. Yes.
21 Q. Okay. And you discussed with them
22 the amortization over 35 years?
23 A. Yeah, that was -- that life -- it
24 was my understanding Bill Buettner came up with
25 that life. And the only reason that stands out

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1 come from these reserves, right?
2 A. No.
3 Q. It comes in the manner described on
4 the top of the second page of the memo.
5 A. That's correct.
6 Q. And this fact was discussed with
7 Coopers & Lybrand on or before May 21, 1997; is
8 that right?
9 MR. RYAN: Objection.
10 A. That's my understanding.
11 MR. WHITNEY: What's the objection?
12 MR. RYAN: I'm not sure which fact
13 you mean by this fact.
14 Q. The fact that the 50 million is
15 coming from purchase price allocation
16 capitalized on the balance sheet as intangible
17 assets amortized over 35 years.
18 A. Yes.
19 Q. Okay.
20 A. Which would be consistent with Mark
21 Kirstein's notes.
22 Q. That's the question I was going to
23 ask you, because that's the question I asked
24 and I didn't think you were answering that
25 question.

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1 There was a point when -- before
2 May 21, 1997, when consideration was given to
3 creating these reserves that would form the
4 first 50 in the same fashion as these reserves
5 that are listed on the third page, right?

6 A. Yes.

7 Q. But your previous answer a couple
8 of minutes ago was that idea was abandoned in
9 favor of the approach discussed on page 2 of
10 the memo.

11 A. Yes.

12 Q. Okay. But Coopers knew, clearly,
13 where the first 50 was coming from, right?

14 A. I believe so.

15 MR. RYAN: Objection.

16 Q. Okay. I note, and just to preview
17 a discussion we'll probably end up having
18 tomorrow, that among the restructuring reserves
19 that are listed on the third page are four
20 enumerated reserves for the Police and Fire
21 Medical Association. Do you see that?

22 A. Yes.

23 Q. All right. Does the fact that
24 these restructuring reserves are not part of
25 the original \$50 million have significance to

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1 A. It's my understanding.

2 Q. And they knew that before the
3 second group of \$49 million of reserves
4 transferred, were transferred, right?

5 A. To my understanding.

6 Q. Not only is it your understanding,
7 you say that here, right?

8 A. Yes.

9 Q. Okay. Now, it's as good a time as
10 any to ask this question.

11 Why are you writing this memo?

12 A. Well, to summarize the reserves, I
13 think there was -- I'm not sure if this is the
14 one or not. Someone asked -- maybe someone
15 from treasury asked Spargo or Adamczak, I guess
16 Steve was still there then, to summarize the
17 various Graduate reserves that had been
18 recorded.

19 Q. Well, we looked at a document this
20 morning where you indicated that Adamczak had
21 asked you in 19 -- or Dionisio had asked you in
22 1998.

23 A. Maybe that was later on.

24 Q. But you think this might have been
25 a similar question?

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1 you in terms of your own inquiry as to whether
2 AHERF was -- or Coopers was aware of the
3 subsequent transfers; that is, the transfers
4 after the first 25 -- or the first 50 million?

5 MR. RYAN: Objection.

6 Q. The question stinks. I'll try
7 again.

8 Are you aware of the notion that
9 people within PriceWaterhouseCoopers contend
10 that, although they knew about certain
11 restructuring reserves attributable to the
12 PFMA, although they knew about those being
13 transferred to the DVOG, they thought that was
14 part of the first 50 million?

15 MR. RYAN: Objection.

16 Q. Have you ever heard that assertion
17 being made?

18 A. Yes, I believe so.

19 Q. As far as you are aware, though,
20 Coopers knew where the first 50 million was
21 coming from, right?

22 A. Yes.

23 Q. And they knew it wasn't coming from
24 existing restructuring reserves at the
25 Graduate, right?

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1 A. Well, yeah. Dionisio didn't ask me
2 to do this, this May 22nd, 1997 memo.

3 Q. Does looking at the distribution
4 list help you as to the purpose of the memo?

5 A. No. I mean it's, like I said, this
6 was a summary of the reserves that had been
7 recorded, whether they went through Graduate's
8 income statement or had been recorded as part
9 of goodwill. And this is just distributing
10 information to all the various individuals.
11 Q. Let me show you a document that was
12 written somewhat -- about a month earlier by
13 you to Steve Spargo that has previously been
14 marked as Deposition Exhibit 8. Take a look at
15 this one.

16 A. (Witness reviewing document.)

17 Q. Again, you don't have to spend a
18 lot of time studying it, I know. This is a
19 document that you have had a chance to review
20 on numerous occasions, right?

21 A. Yes.

22 Q. Now, and it's a document you wrote
23 on or about April 14, 1997?

24 A. Yes.

25 Q. To Steve Spargo. Same question.

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1 additional work there.

2 And I believe, based on, you know,
3 discussions that Coopers & Lybrand had with
4 Allegheny management, that the determination
5 was made at that point that there was
6 additional reserves that needed to be recorded,
7 which ultimately resulted into that 17 or
8 whatever the -- \$17 and a half million number
9 that was recorded.

10 Q. All right. But ultimately, the
11 numbers are recorded and Coopers & Lybrand
12 issues a clean opinion on the 1996 financial
13 statement?

14 A. For DVOG, yes.

15 Q. Now, not to repeat myself, but then
16 by the time we reach, even before the end of
17 the audit year, of the next year,
18 three-quarters of the way through, we're
19 transferring \$50 million of Graduate reserves
20 to the DVOG allowance for bad debt, and Coopers
21 knows about this, right?

22 A. Yes.

23 Q. And you're still up short
24 \$25 million, right?

25 A. Yes.

1 some of the problems were. But, you know, it
2 takes time to fix some of those problems. But,
3 yeah, I mean it was a widely known topic.

4 Q. The transfer of the \$21 million
5 from Graduate to DVOG, is this transaction, in
6 your experience, sufficiently similar to the
7 first \$50 million that if the first \$50 million
8 is acceptable under GAAP, the next 21 million
9 would be acceptable, too?

10 A. Yes.

11 MR. RYAN: Objection.

12 A. It was the same logic.

13 Q. Same principle. If Coopers did not
14 know about the \$21 million at or around the
15 time it was made, but did know about the
16 \$50 million, would you have any reason to
17 believe that Coopers & Lybrand would have a
18 concern about the second 21 million?

19 MR. RYAN: Objection.

20 A. I'm not sure I understand that
21 question.

22 Q. If, hypothetically, Coopers &
23 Lybrand did not know about that additional
24 transfer of \$21 million of reserves in June and
25 July of 1997, but they did know about the first

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1 Q. And through that whole period of
2 time, you're at least expensing something to
3 bad debt, right?

4 A. Yes.

5 Q. That is, you're creating some bad
6 debt allowance in the more conventional way?

7 A. Yes.

8 Q. Maybe it's just me, but is that
9 describing a problem situation at AHERF?

10 A. It was a problem situation, yeah.

11 Q. Am I -- you know, \$71 million may
12 be different things to different people, but
13 that's a pretty big problem, isn't it?

14 A. There was a lot of concerns about
15 accounts receivable.

16 Q. My question is: While all of this
17 is happening and there's a discussion in bullet
18 points, in audit update meetings about the
19 Graduate reserves and their impact on the
20 Graduate reserves, is Coopers raising questions
21 about what's happening that is causing this?

22 MR. RYAN: Objection.

23 A. I mean I believe they were. I
24 believe they knew what some of the problems
25 were, as did Allegheny management know what

1 50 --

2 A. Okay.

3 Q. -- would there be any reason, in
4 your mind, to suspect that Coopers & Lybrand
5 might have a problem with the second 21?

6 MR. RYAN: Objection.

7 A. Not necessarily.

8 Q. All right.

9 A. But it was my understanding they
10 knew about at least the various components that
11 made up the 21. Like I said, maybe not in this
12 deposition, but in other ones, the components,
13 the 50 was always a separate component.
14 The 21 and 28 weren't necessarily
15 referred to in that manner until probably when
16 they came back in and started doing the reaudit
17 in the summer of '98. But certainly, you know,
18 some of the items that comprise the 21 and 28
19 had been discussed.

20 And, you know, I think the PFMA is
21 a perfect example. The transfer of that
22 reserve, there were pieces of that that was in
23 the 28 and that were in the 21, so it was in
24 both pieces there and it was not in the 50.

25 Q. Do you remember specifically -- do

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1 you remember telling Coopers & Lybrand at or
2 around June or July 1997 that the \$21 million
3 of reserves had been transferred?

4 A. I can't remember if I did at that
5 point or not.

6 Q. Did anybody at AHERF ever tell you
7 they told Coopers that at or around June of
8 July of 1997?

9 A. I don't know if specifically.
10 Certainly it was, those components were
11 ultimately, at least some of them had been
12 discussed, because reserves were gone at the
13 end of June.

14 Plus, as an example, that
15 21 million was on the key bad debt roll-forward
16 schedule that was provided to -- that would
17 have been provided to --

18 MR. WHITNEY: Let's go off the
19 record a minute.

20 VIDEO TECHNICIAN: Off the record.
21 (Brief recess.)

22 VIDEO TECHNICIAN: We're on the
23 record at 5:21.

24 Q. Your last answer, "I don't know if
25 specifically. Certainly it was, those

1 include the transfer of the \$21 million
2 reserve.

3 Q. 289 through 293, Exhibits 289
4 through 293, which I have put in front of you,
5 are the key bad debt roll-forward schedules in
6 these documents?

7 A. Yeah. They're several pages back,
8 like on Exhibit 289 I think it's 013544.L
9 That's one of them. Point M would be another
10 one. This is just for Bucks County.

11 Q. These are the key -- let me get --
12 the key bad debt roll-forward schedule for
13 Bucks County for June 1997?

14 A. Yes.

15 Q. The items 013544.L and M, right?

16 A. Yes.

17 Q. Now, what do they show us vis-a-vis
18 the \$21 million?

19 A. They show that there's the -- the
20 entire schedule shows the beginning balance as
21 of '96, June '96. It shows the write-offs
22 during the year. I believe that's the second
23 column. The third column shows the recoveries.

24 And then the other column shows
25 other adjustments, some of the larger ones

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1 components were ultimately, at least some of
2 them had been discussed, because reserves was
3 gone at the June. Plus, as an example, that
4 21 million was on key bad debt roll-forward
5 schedule that would have been provided to -- "

6 You don't finish the statement, but
7 the finish of that statement is Coopers, right?

8 A. Correct.

9 Q. The key bad debt roll-forward
10 schedule is going to show Coopers that there's
11 \$21 million of additional reserves being
12 applied to DVOG bad debt, right?

13 MR. RYAN: Objection.

14 MR. WHITNEY: What's objectionable
15 about that?

16 MR. RYAN: Leading and it also
17 misstates the schedule.

18 A. Those bad debt --

19 MR. WHITNEY: I don't know whether
20 it misstates the schedule or not, Mr. Ryan.
21 I'm going to ask him what the schedule means,
22 because I don't know what it means. I'm just
23 following the witness.

24 A. Those schedules include the
25 transfer of the \$50 million reserves and they

1 which would include the transfer, other
2 reserves that were part of the 50 million. And
3 then, I believe, some of the reserves that were
4 transferred as part of the 71 million.

5 Q. If we look, for example, at the
6 entry --

7 MR. TYCKO: Do you mean 21 million?

8 A. 21 million.

9 Q. If we look, for example, at the
10 entries for March of 1997, under other, there's
11 a number of 1,695,000 and change with a
12 footnote F, right?

13 A. Yes.

14 Q. And the footnote reads, includes
15 \$4.7 million write-off of Patcom accounts
16 receivable balance, \$3 million transfer from
17 Graduate. And then another figure that I
18 confesses to you I can't read. Non patient
19 cash.

20 The \$3 million entry for transfer
21 from Graduate, to what transfer does that have
22 reference?

23 A. I believe that references that that
24 was part of the \$50 million transfer.

25 Q. As was the \$4 million transfer from

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1 Graduate listed on the item with the footnote
2 G?

3 A. I believe so.

4 Q. All right. Now, there is also a
5 line item under the last one, June, of an
6 adjustment of \$2,900,000 and change with a
7 footnote L, and it says, includes \$59 million
8 of shortfall adjustments.

9 MR. RYAN: I think it's 59,000.

10 Q. \$59,000 of shortfall adjustments.

11 Thank you.

12 Is that \$59,000 having reference to
13 any reserve transfers from Graduate?

14 A. Yes. I believe that's part of the
15 \$21 million reserve transfers.

16 Q. Well, it doesn't say that here,
17 though, does it?

18 A. Well, it says, includes 59,000
19 shortfall adjustment.

20 Q. All right. Now, if we similarly go
21 to the exhibit marked 290, again, to items L
22 and M, we see on item L in footnote G a
23 reference to a transfer from Graduate. And
24 under H, we see a reference to a \$5 million
25 transfer from Graduate. And then under item J

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1 part of the \$21 million of reserve transfers.

2 Q. We've done the calculations here on
3 all of these exhibits, 289 through 293, and
4 have come up with a total attributable to
5 Graduate where in these footnotes it references
6 including an amount transferred from Graduate,
7 and those totals are \$50 million, right?

8 A. Okay.

9 Q. That's what we come up with. Does
10 that number surprise you?

11 A. No.

12 Q. And the reason is?

13 A. Because that was the amount of the
14 reserves that were transferred.

15 Q. So that these transfers from
16 Graduate tie off to the \$50 million number,
17 right?

18 A. Yes.

19 Q. We have also totaled up the various
20 numbers referenced as shortfall adjustments and
21 we come up with a number of about 7 million --
22 \$27 million.

23 Does that number surprise you?

24 MR. RYAN: I would like to object
25 to your faulty math.

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1 we see another shortfall adjustment.

2 A. Yes.

3 Q. All right. Again, this adjustment
4 does not have reference to any reserve transfer
5 from Graduate, right?

6 A. That's correct.

7 Q. We can go through 291, 292 and 293
8 as well, but what is the point you're making
9 about the \$21 million that is revealed by these
10 key bad debt roll-forward schedules?

11 A. That those transfers were also
12 presented on the schedule. They don't
13 necessarily -- the June transfer, for example,
14 doesn't necessarily say Graduate, but it says
15 shortfall adjustment and why that language was
16 chosen. I think the one memo that I wrote that
17 described all the transfers, I think the
18 caption of it was called bad debt reserve
19 shortfall, or something to that effect.

20 But like, you know, if you go to
21 the next page, point M, the same logic. It
22 says pretty much the same thing. Except this
23 number is \$2.7 million shortfall adjustment.
24 And it's the same thing where that's where the
25 reserves were being transferred over. It was

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1 MR. WHITNEY: My faulty math? Did
2 you do it in your head sitting there with your
3 hands folded above you, or have you done some
4 calculation at some other time?

5 MR. RYAN: I have done it some
6 other time.

7 MR. WHITNEY: What do you come up
8 with?

9 MR. RYAN: I don't have to tell
10 you. I'm just objecting to the record you're
11 making, which I believe was wrong.

12 MR. WHITNEY: Which part of it is
13 wrong?

14 MR. RYAN: The number of
15 27 million.

16 Q. Well, we'll go back and do that
17 overnight. But we come up with a number that
18 is in excess of \$20 million, in excess of
19 \$25 million. Does that number surprise you?

20 A. No. That would correlate to the --
21 there was a memorandum I wrote, I believe, in
22 July of '97 that had that 25 -- I think it was
23 roughly \$25 million on it.

24 Q. All right. Now --

25 A. Of which the 21 was part of the 25.

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1 Q. All right. Now, how is the -- what
2 is it that the reviewer is to derive from these
3 documents that tells them that there has been
4 an additional \$21 million of reserve transfers?

5 The launching point, as I
6 understand it, Mr. Cancelmi, for this
7 discussion of these of these bad debt
8 roll-forward schedules is that the fact of the
9 additional \$21 million in transfers is revealed
10 on these bad debt roll-forward schedules,
11 right?

12 A. That's my belief.

13 Q. Explain to me like I'm five years
14 old why they are.

15 A. Well, they're identified on the
16 schedule. Some are more specifically labeled.
17 The \$50 million of transfers is more
18 specifically labeled than the shortfall
19 adjustment.

20 But still the shortfall adjustment,
21 I think that description came from the
22 memorandum that I probably wrote. I don't know
23 for certain about that. But they probably used
24 that as the journal entry support for those
25 transactions.

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1 different than the Graduate 50 million.

2 Q. Okay. So while Coopers does not,
3 from these documents, reveal -- does not reveal
4 to them that there is a 20 million plus reserve
5 transfer, you're saying it reveals to them, if
6 they review these documents, that there is
7 something that is driving these rather
8 considerable shortfall adjustments?

9 A. That's right.

10 Q. And is that the point that you're
11 making when you refer to these documents?

12 A. Yes.

13 Q. Okay.

14 MR. WHITNEY: You're sure you're
15 not going to tell me what that number is? If I
16 subpoena you, will you tell me?

17 MR. RYAN: Not interested in
18 testifying.

19 (Discussion held off the record.)

20 Q. If one assumes that Coopers &
21 Lybrand is not told about the \$21 million
22 reserves when they occurred, and it is your
23 understanding they were; is that right?

24 A. Some of the components that made up
25 the 21 million, I believe, were discussed with

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1 When you're looking at the other
2 column, there's some fairly substantial numbers
3 in that other column. And, therefore, when you
4 would have numbers of that magnitude, what's
5 relevant is that there, especially like if I'm
6 looking at Exhibit 289, the point M page, the
7 shortfall adjustment column is June
8 indicates -- it's 1,500,000, I believe, and the
9 June number, which includes other adjustments.

10 But I mean the number is one of the
11 larger numbers on that schedule, certainly, at
12 least on this particular schedule, so it would
13 lead one to question, you know, what do those
14 adjustments relate to.

15 Q. Whether it is identified as
16 reserves from Graduate or the product of a
17 reserve transfer from Graduate, these bad debt
18 shortfall analyses show that significant
19 shortfall adjustments are being made to the bad
20 debt reserves that are coming from somewhere
21 other than the \$50 million of Graduate
22 reserves, right?

23 A. Yes.

24 Q. Is that what you're saying?

25 A. The shortfall adjustments are

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1 Cooper.

2 Q. But you're not -- you don't know
3 whether or not the whole 21 was?

4 A. I can't say for certain. I can't
5 say for certain someone said, hey, there's
6 \$21 million and here's every single cent that
7 made up the 21 million, no.

8 Q. Let me get this down before you
9 leave for Plano. You don't know whether it was
10 stated that \$21 million more of reserves was
11 transferred to Coopers and you don't know
12 whether it was not stated; is that right?

13 A. That's correct.

14 Q. Okay. But if one assumes it
15 wasn't, that it was not discussed with Coopers
16 in a direct way, and one assumes they do not
17 look at the bad debt roll-forward schedules, is
18 there any other way that you can think of that
19 Coopers & Lybrand was aware of additional
20 reserve transfers to bad debt over and above
21 the first 50 in connection with the 1997
22 audits?

23 A. I think, as I mentioned this
24 morning, I guess it was, there were reserves
25 that would have been on the Graduate hospitals'

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1 books prior to June of '97. And then at the
2 end of June of '97 on our trial balance there
3 would have been zero balances left in those
4 accounts.

5 And there were for many of those
6 reserves that were transferred, separate
7 general ledger accounts, where the only item in
8 there was the reserve that was originally
9 established on Graduate's books. Just that as
10 an example, I think PFMA may have been in a
11 separate account. No other transaction was
12 recorded in that account.

13 And there was a number of those
14 type of reserve accounts that had a balance at
15 one point in time related specifically to that
16 reserve. And then in June of '97, there would
17 have been a zero reserve or a much, much
18 smaller reserve balance. So that would have
19 been one way.

20 Journal entries that Allegheny
21 maintained in the journal entry books would
22 have had those transactions in them, I believe.

23 And there was various, I think
24 there was some discussions and some notations
25 about some reserves that were transferred in

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1 answers ago about the fact that there were
2 discussions of specific reserves. There is an
3 item number two, PFMA contract. And there
4 is -- let me back up and ask a foundational
5 question. Do you recognize the handwriting on
6 the page?

7 A. Yes.

8 Q. Okay. Whose is it?

9 A. Mark Kirstein's.

10 Q. Were you at this meeting.

11 A. I believe I was. I know I have
12 this in my file.

13 Q. There is a statement, PFMA
14 contract, where did it go?

15 Does this refresh your recollection
16 that on or about August 22, 1997 Coopers is
17 specifically raising the question of what has
18 become of the PFMA reserve that was created on
19 the books of the Graduate?

20 A. I can't say I remember the specific
21 conversation. Like I said before, I think
22 generally speaking, I do recall discussing the
23 PFMA reserve, for example, and that, you know,
24 it had been transferred. I can't say
25 specifically this is exactly what I said, you

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1 particular, like the PFMA, that there's
2 notations about it being transferred for DVOG
3 AR. I'm sure there's other instances that
4 aren't coming to mind.

5 MR. WHITNEY: Everybody stay in
6 place.

7 (Discussion held off the record.)

8 - - - - -
9 (Thereupon, Deposition Exhibit 1072
10 was marked for purposes of
11 identification.)
12 - - - - -

13 Q. Showing you a document that has
14 been marked as Exhibit 1072. And you can look
15 at how much of this you want or wish to. I'm
16 going to ask you some questions about the
17 second page of this document, which is an audit
18 update agenda, if you will, dated August 22,
19 1997.

20 A. (Witness reviewing document.)

21 Q. Have you ever seen this document
22 before?

23 A. Yes, the SEC staff showed it to me.

24 Q. You were talking earlier about the
25 fact that -- or in an answer a couple of

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1 know, five years ago.

2 Q. I'm not attributing it to you. I'm
3 just wondering whether or not it refreshes your
4 recollection that Coopers was raising the issue
5 of what became of this reserve?

6 MR. RYAN: Objection. Asked and
7 answered.

8 MR. TYCKO: You can go ahead.

9 A. Again, I can't say specifically
10 what their exact question would be, but I mean
11 I generally recall we discussed certain of the
12 reserves that had been transferred for the
13 additional bad debt reserve.

14 Q. Earlier in the deposition today, we
15 were discussing certain audit records that
16 might reveal these Graduate transfers to DVOG.
17 And one of those records would have been
18 records relating to Graduates' reserves, or the
19 reserves that were created on the books of the
20 Graduate prior to the transfer. Do you recall
21 that questioning and answer?

22 A. Yes.

23 Q. Do you recall that the question
24 about the notion that one of the things -- do
25 you recall a question being that one of the

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1 things Coopers & Lybrand would have been
2 looking at in an audit, in your experience, was
3 what had -- what was the status of those
4 reserves at year end 1997?

5 A. Yes.

6 Q. That would be a specific item they
7 would be looking at?

8 A. Yes.

9 Q. This is one of those items, is it
10 not?

11 A. I believe so.

12 Q. A fairly substantial one, right?

13 A. I believe so.

14 Q. Do you remember how much?

15 A. The PFMA was around 14 million.

16 Q. Now, there's a notation, where did
17 it go. And then there is -- am I reading this
18 right, is there an arrow pointing over to that
19 note to the right there? Do you see that?

20 A. Yes.

21 Q. Do you see what that says?

22 A. It's something through

23 intercompany.

24 Q. How about not through income?

25 A. That could be, not through income,

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1 accounts receivable over and above the first
2 50?

3 MR. RYAN: Objection.

4 A. I don't understand the question.

5 Q. Gee, I thought it was such a good
6 question that I wasn't even going to pay
7 attention to the objection, even at 10 minutes
8 to 6.

9 The point of the beginning of this
10 discussion was a question by me that if one
11 assumes that Coopers wasn't told directly that
12 there was \$21 million more of reserves going
13 from the Graduate to the DVOG, and if one
14 assumes that they didn't look at the key bad
15 debt roll-forward schedules as we did a few
16 minutes ago, is there any other way that
17 Coopers & Lybrand, that you're aware of, that
18 Coopers & Lybrand knew that there were
19 additional reserves going from the Graduate to
20 the DVOG?

21 And your answer was a fairly
22 lengthy one, but it included an awareness by
23 them of certain Graduate reserves that were no
24 longer in the accounts of the Graduate. Do you
25 remember that?

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1 move to DV reserves for AR.

2 Q. All right. Do you recall telling
3 Kirstein on or about August 22, 1997 that the
4 PFMA contract was, in fact, moved to DVOG
5 reserves for accounts receivable?

6 A. I believe I told Coopers that that
7 happened. Again, I can't remember the specific
8 conversation with Kirstein or whether it was
9 Amy, but I believe I probably more remember the
10 conversation with PFMA with Amy, but there's a
11 notation there.

12 Q. All right. Now, not
13 coincidentally, perhaps, that is where the PFMA
14 reserve ended up, right?

15 A. Yes.

16 Q. Exactly where this note says it
17 did?

18 A. Yes.

19 MR. RYAN: Objection.

20 Q. And my question to you is, goes
21 back to the original premise. Can you explain
22 why it is that Coopers' knowledge, if that's
23 what this means, that the PFMA reserve went to
24 DVOG accounts receivable, why that would inform
25 them that there are reserves going to the DVOG

Page 301

1 A. Yes.

2 Q. We can go back and get the answer,
3 if you want.

4 A. No, I remember that.

5 Q. I showed you this document as a
6 vehicle for asking you whether or not you
7 recall a discussion with them specifically
8 about the Graduate reserve for PFMA, which was
9 a \$14 million reserve, right?

10 A. Yes.

11 Q. And a discussion specifically about
12 PFMA that that reserve went to the DVOG. And
13 your statement is that you recall discussions
14 with Coopers about the fact that the PFMA
15 reserve, in fact, went to the DVOG?

16 A. Yes.

17 MR. RYAN: Objection.

18 MR. WHITNEY: What's the objection?

19 MR. RYAN: I think it

20 mischaracterizes the prior testimony.

21 Q. I'll take my chances.

22 The question I have for you is
23 essentially, we reached that point, so what?

24 If we assume that Coopers & Lybrand knew that
25 the PFMA reserve went to the DVOG, what does

76 (Pages 298 to 301)

Daniel Cancelmi

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1 that tell us about their knowledge of reserves
 2 over and above the first 50 going to the DVOG?
 3 A. That they would --
 4 MR. RYAN: Objection.
 5 A. -- know that there would be more
 6 than the \$50,000 transferred to the DVOG for
 7 bad debt reserves.
 8 Q. Unless they think that the first
 9 \$50 million includes the PFMA contract, right?
 10 Then it wouldn't tell them that, right?
 11 A. No, but the PFMA wasn't part of the
 12 50 million, the first 50 million.
 13 Q. Are you aware of the fact that
 14 certain representatives of Coopers say that
 15 they thought it was?
 16 MR. RYAN: Objection.
 17 A. Through the investigations I've
 18 become aware of -- well, at certain points
 19 that's what I've heard. Other times I've heard
 20 they knew nothing about any of the reserves.
 21 Q. All right. But you have heard that
 22 certain representatives of Coopers believe that
 23 the PFMA reserves were part of the first 50?
 24 A. I guess I've heard that theory.
 25 Q. All right. Well, if that's the

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1 case, if they thought it was part of the first
 2 50, then the fact that they knew that it was
 3 going to the DVOG would not necessarily tell
 4 them that there were more reserves above the 50
 5 going to the DVOG, right?
 6 A. That would be right.
 7 Q. Okay. Do you dispute the notion
 8 that they thought that that was part of the
 9 first 50?
 10 A. Yeah, the PFMA was not part of the
 11 first 50. They were recorded completely
 12 different times. PFMA was recorded months,
 13 six, seven months before the \$50 million of
 14 reserves were recorded. And they were
 15 transferred at different times. The
 16 \$50 million was transferred in March and April.
 17 The PFMA reserves were transferred, they were
 18 included in the 21 and the 28 in May and June
 19 of '97. Different reserves recorded at
 20 different times initially and transferred later
 21 on at different times.
 22 MR. WHITNEY: All right. I'm done
 23 for the evening.
 24 (Deposition adjourned.)
 25 -----

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1 CERTIFICATE
 2 The State of Ohio,)
 3 SS:
 4 County of Cuyahoga.)
 5
 6 I, Jaci R. Traver, RPR, CRR and
 7 Notary Public, duly commissioned and qualified,
 8 do hereby certify that the within named
 9 witness, DANIEL CANCELMI, was by me first duly
 10 sworn to testify the truth, the whole truth and
 11 nothing but the truth in the cause aforesaid;
 12 that the testimony then given by the
 13 above-referenced witness was by me reduced to
 14 stenotypy in the presence of said witness;
 15 afterwards transcribed, and that the foregoing
 16 is a true and correct transcription of the
 17 testimony so given by the above-referenced
 18 witness.
 19 I do further certify that this
 20 deposition was taken at the time and place in
 21 the foregoing caption specified and was
 22 completed without adjournment.
 23
 24
 25

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1 I do further certify that I am not
 2 a relative, counsel or attorney for either
 3 party, or otherwise interested in the event of
 4 this action.
 5 IN WITNESS WHEREOF, I have hereunto
 6 set my hand and affixed my seal of office at
 7 Cleveland, Ohio, on this day of
 8 , 2003.
 9
 10
 11
 12
 13 Jaci R. Traver, Notary Public
 14 within and for the State of Ohio
 15
 16 My commission expires July 15, 2003.
 17
 18
 19
 20
 21
 22
 23
 24
 25

77 (Pages 302 to 305)

Daniel Cancelmi

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1 dialogue was at that point between AHERF senior
2 management and Coopers & Lybrand as to what the
3 ultimate issue is.

4 With those type of numbers, if
5 Coopers said that they absolutely don't agree
6 with it, you'd have to make some adjustment.

7 Q. You would have to -- you would
8 basically either have to reverse those entries
9 or you would have to issue your financial
10 statements with a qualified or adverse opinion,
11 right?

12 MR. RYAN: Objection.

13 A. That's probably a good possibility.

14 Q. My question to you, since I keep
15 catching these objections, based on your
16 experience on both the auditing side and the
17 client's side, if the auditor tells the client,
18 I'm not going to agree to transactions of that
19 magnitude, what are the company -- the company
20 basically has to go along with the auditor,
21 don't they?

22 MR. RYAN: Objection.

23 A. Yeah, if you want an unqualified
24 opinion. I mean there's a number of different
25 things that have to happen, both from the

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1 transferred these \$50 million of reserves and
2 subsequently the other \$21 million of reserves
3 to DVOG's allowance for bad debt if you did not
4 need the money?

5 A. No, I don't believe so.

6 Q. All right. Were there other
7 reserves available to apply to DVOG's bad debt
8 in March and April and May and June of 1997,
9 other than these Graduate reserves?

10 A. Generally speaking, I mean I think
11 Allegheny's position was the answer was no by
12 and large. There may still have been
13 miscellaneous reserves out there, but I don't
14 think Allegheny management ever believed that
15 there was reserves of that magnitude that were
16 out there that would eliminate the need to make
17 those transfers.

18 Q. You talked earlier about the
19 so-called X file, this circulated schedule of
20 reserves that was periodically circulated to
21 various representatives of AHERF, right?

22 A. Yes.

23 Q. Including you?

24 A. Yes.

25 Q. Okay. By virtue of that X file,

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1 client's side and from auditor's side.

2 I mean there's representation
3 letters, there's required communications with
4 audit committees, there's management comment
5 letters, there's communications indicating
6 whether there's any disagreements with the
7 management and the accountants.

8 Whether the auditors have
9 identified any material adjustments that they
10 had -- that they disagreed with and had to
11 bring to management's attention. I mean
12 there's a -- I'm probably just -- that's tip of
13 the iceberg.

14 Q. But in any event, at no time did
15 Coopers & Lybrand ever tell AHERF to reverse
16 any of these reserve transfers, right?

17 A. Not that I'm aware of.

18 MR. RYAN: Objection.

19 Q. Not that you're aware of. The
20 \$50 million that was transferred from Graduate
21 to DVOG, the first 50, did DVOG need the money?

22 A. Based on the calculations at that
23 point in time, that was the conclusion, that
24 they did need the reserves.

25 Q. All right. Would you have

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1 you would know, would you not, if there were
2 available reserves, other than the Graduate
3 reserves, to apply to the DVOG bad debt?

4 MR. RYAN: Objection.

5 A. Yeah, I mean that extra reserve
6 file or the X file, that was an attempt to
7 summarize at least some of the more noteworthy
8 reserves, excess or otherwise, on the financial
9 statements of the various Allegheny hospitals.

10 Q. Do you remember whether or not
11 there was an excess contractual allowance
12 reserves of \$9 million available as of year end
13 1997 to apply to these reserves -- or to the
14 DVOG bad debt?

15 A. Not offhand.

16 Q. Do you remember whether or not
17 there was a CRA reserve in the amount of
18 \$10 million available to apply to the bad debt?

19 A. I don't know. I don't remember
20 that, although that wasn't our department's
21 area. That was the cost reporting department,
22 government reimbursement department.

23 Q. Let me show you a document here.

24 - - - - -

25 (Thereupon, Deposition Exhibit 1070

67 (Pages 262 to 265)

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF
ALLEGHENY HEALTH, EDUCATION &
RESEARCH FOUNDATION,

Civil Action

Plaintiff,

No. 00-684

Vs.

PRICewaterhouseCOOPERS, L.L.P.,
Defendant.

Continued videotaped deposition of
DANIEL CANCELMI, called for examination under the
statute, taken before me, Jaci R. Traver, RPR,
CRR, and Notary Public in and for the State of
Ohio, at the offices of Jones Day, 500 Grant
Street, Pittsburgh, Pennsylvania, on Friday, the
24th day of January 2003 at 8:00 a.m.

- - - - -
VOLUME 2
- - - - -

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1 APPEARANCES:

2
3 On behalf of the Plaintiff:

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11 Jones Day, by
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17 On behalf of the Defendant:
18 Cravath, Swaine & Moore, by
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25

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1 VIDEO TECHNICIAN: Today's date is
2 January 24th, 2003. We are on the record at
3 8:10.

4 This is the continued deposition of
5 Dan Cancelmi at Jones Days Pittsburgh, Official
6 Committee of Unsecured Creditors of AHERF
7 versus PriceWaterhouseCoopers in the United
8 States District Court, Western Division of
9 Pennsylvania, 00-684.

10 Counsel please state appearances
11 once again for the record.

12 MR. WHITNEY: Richard Whitney,
13 Jones Day, Cleveland, Ohio, for the Plaintiff.

14 MR. TORBORG: David Torborg, Jones
15 Day, for the Plaintiff.

16 MR. RYAN: Antony Ryan from
17 Cravath, Swaine & Moor, for Defendant
18 PriceWaterhouseCoopers. And with me is Avram
19 Luft from Cravath and Jeffrey Close from the
20 Office of General Counsel at
21 PriceWaterhouseCoopers.

22 MR. TYCKO: Jonathan Tycko, with
23 Tycko Zavareei, LLP, in Washington, D.C., for
24 the witness.

25 (Discussion held off the record.)

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1 APPEARANCES, Continued

2
3 On behalf of the Defendant:

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11 On behalf of the Witness:

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18

19 ALSO PRESENT:

20 Jeffrey L. Close,
21 PriceWaterhouseCoopers
22 Kurt Henschel, Video Technician
23
24
25

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1 DANIEL CANCELMI, of lawful age, called
2 for examination, as provided by the statute,
3 having been previously sworn, as hereinafter
4 certified, said as follows:

5 CONTINUED EXAMINATION OF DANIEL CANCELMI
6 BY MR. WHITNEY:

7 Q. Mr. Cancelmi, I want to start this
8 morning by talking briefly about the
9 \$28 million reserve transfer. The last segment
10 of the 99 million in reserve transfers that
11 occurred in 1999.

12 I asked you this question
13 yesterday. You answered it, but I forgot
14 exactly what you said, although I'm 90 percent
15 sure. If I try to characterize your testimony,
16 I'll catch an objection and I'll certainly be
17 wrong.

18 Can you tell me, therefore, again,
19 was it your understanding that Coopers &
20 Lybrand knew about the \$28 million transfer at
21 or about the time it was made?

22 A. Yes. At least certain of the
23 components that comprise the 28 million. Like
24 I said yesterday, the 28 million hadn't been
25 componentized and presented as the 50, the 21,

2 (Pages 315 to 318)

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1 and 28 at that point in time that I remember.
 2 That did not occur until probably
 3 the summer of '98, when the restatement issues
 4 were being discussed. Where all the numbers
 5 were added up and they totaled the 99 some odd
 6 million dollars.

7 But some of the components
 8 certainly that were part of the 28 million
 9 transfer, my understanding, had been discussed
 10 with Coopers or information made available to
 11 them that would suggest that those transfers
 12 had occurred.

13 Q. Let me pick up the last part of
 14 that first. Some of the components certainly
 15 that were part of the \$28 million transfer, my
 16 understanding had been with Coopers or
 17 information -- my understanding had been
 18 discussed with Coopers. Let me start over.
 19 Some of the components certainly
 20 that were part of the \$28 million transfer, my
 21 understanding, had been discussed with Coopers
 22 or information made available to them that
 23 would suggest that those transfers had
 24 occurred.

25 I was actually going to explore

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1 Q. Was it your understanding that they
 2 were?

3 A. Around that time, I don't remember
 4 if they were at the time they were recorded.

5 Q. How about prior to Coopers &
 6 Lybrand signing off on the 1997 audit? And by
 7 signing off, I mean the issuing of their
 8 opinion to 1997 audit.

9 A. My recollection is that certain of
 10 the reserves that were included in the
 11 \$28 million transfer, the questions had come up
 12 as to where those reserves had gone. And the
 13 ones that come to mind are like maybe the PFMA
 14 reserve, I think the MA, there was an MR
 15 reserve or a Hill-Burton reserve.

16 I can't say specifically exactly
 17 which reserves may have been discussed. But
 18 there was certainly a number of reserves that
 19 were out there on the Graduate books. But then
 20 on June 30th they weren't there anymore because
 21 they had been transferred and were included as
 22 part of the 28.

23 Q. You're referencing now discussions
 24 with Coopers about Graduate reserves and what
 25 had become of them during the 1997 fiscal year.

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1 this in two-part fashion. And my question
 2 right now is whether or not it was discussed
 3 with them at or about the time the \$28 million
 4 was -- \$28 million transfers were made. It
 5 wasn't just one big slug, was it, or was it?

6 A. There was a few entries.

7 Q. First, if you know, was the notion
 8 that we are transferring reserves to address a
 9 contract allowance shortfall deficiency, was
 10 that discussed with Coopers?

11 MR. RYAN: Objection.

12 MR. WHITNEY: What's the objection?
 13 I don't want this one to be wrong.

14 MR. RYAN: I don't understand what
 15 you mean by a contract allowance shortfall.

16 MR. WHITNEY: You've got me on
 17 that. Before going back, give it to me. Give
 18 me the terminology.

19 Q. Had the concept of transferring
 20 reserves for the purpose of reducing
 21 contractual allowances been discussed with
 22 Coopers?

23 A. At the time they were recorded, I
 24 couldn't say if they were or not. I don't
 25 remember.

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1 Right so far?

2 A. Yes.

3 Q. And in the context of those
 4 discussions, are you saying at least -- they
 5 were told that at least some of these reserves
 6 were being used to reduce the contract
 7 allowances?

8 A. I don't know exactly what
 9 terminology would have been used. Could have
 10 been they were used for patient revenue or
 11 patient accounts receivable issues. I just --
 12 I can't remember specifically what the language
 13 would have been used.

14 Q. But in any event, they were -- were
 15 they told, in essence, that apart from the
 16 50 million, the first 50, which they knew
 17 about, you say?

18 A. Yes.

19 Q. Apart from the 21 million, which
 20 you believe they knew about; is that right?

21 A. Yes.

22 Q. And if I understand yesterday, from
 23 the exhibits we looked at, the key bad debt
 24 rollover -- or roll-forwards, they could have
 25 derived in the fashion you testified yesterday,

3 (Pages 319 to 322)

Page 323

1 right?

2 A. Yes.

3 Q. Okay. In addition to that, they
4 were told that reserves -- that some of these
5 Graduate reserves had been used to address
6 other issues?

7 A. I believe so. I mean derive that
8 in the same fashion as the 21. Because some of
9 the reserves that were part of the 21 were part
10 of the 28. So if you're looking at
11 transactions related to the 21, you'd see the
12 same issues because the reserves, there were
13 some reserves that were in both the 21 and 28,
14 I believe.

15 Q. PFMA, the PFMA reserves which
16 totaled somewhat more than \$14 million, those
17 reserves were used as a piece of both the 21
18 and the 28, right?

19 A. I believe so, yes.

20 Q. So is what you're saying that if
21 they back up from, say, the key bad debt
22 roll-forwards to the PFMA reserves, they will
23 see that, in addition to the fact that those
24 reserves had been transferred for the
25 21 million, in part, they were also transferred

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1 would go in and look at the time journal
2 entries, it's clear they either would have
3 went, at least some of the reserves would have
4 went to bad debt or went to contractual
5 allowance.

6 Q. Do you believe that Coopers &
7 Lybrand as part of their 1997 audit was looking
8 at these reserves, these Graduate reserves?

9 A. Yes.

10 MR. RYAN: Objection.

11 Q. From your perspective, as both a
12 former auditor of Coopers who audited AHERF and
13 a former AHERF employee who worked with Coopers
14 on the audit, would it be likely that Coopers &
15 Lybrand, or could Coopers & Lybrand have
16 audited AHERF's financial statements without
17 looking at the status of the Graduate reserves
18 at the end of 1997?

19 MR. RYAN: Objection.

20 A. I mean you could always do that.
21 I'm not -- you know, I don't believe that was
22 the case, but I mean how they conducted their
23 audit, that was their decision.

24 Q. These reserves were set up as part
25 of acquisition -- what's called acquisition

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1 for another purpose, right?

2 MR. RYAN: Objection.

3 A. Yes.

4 Q. Now, when you say, it's my
5 understanding that they knew about this, to use
6 your terminology -- "not understanding, believe
7 so. In addition to that, they were told that
8 the reserves, that some of these Graduate
9 reserves had been used to address other issues,
10 I believe so."

11 Are you saying somebody told you
12 that or are you saying you know that?

13 A. Like I said, I can't say
14 specifically what the exact conversation was.
15 There were reserves that were on Graduate's
16 books at a certain point in time early in the
17 audit. And then at the end of the audit,
18 June 30th, they were not there.

19 And it's my understanding, based on
20 I think conversations I had or maybe someone
21 else would have had, that those reserves were
22 gone. And to explain where they went, they
23 either went to bad debt reserves or they went
24 somewhere else.

25 And the journal entries, if someone

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1 accounting; is that right?

2 A. They were set up -- the reserves
3 that were part of the 28 and the 21 were set up
4 as part of the due diligence related to the
5 acquisition on the Graduate hospitals.

6 Q. All right. These reserves --
7 strike that.

8 Does Generally Accepted Accounting
9 Principles, to your knowledge, address the
10 issue of the establishment of reserves in these
11 kinds of transactions?

12 A. Yeah, I think so.

13 Q. Does it contain mandates or
14 provisions as to how these reserves are to be
15 addressed over time after they are created, do
16 you know?

17 A. I don't know if -- yeah, I guess
18 you would say that. I mean they're supposed to
19 be reserves for, you know, certain items that
20 are out there. And, you know, Generally
21 Accepted Auditing Standard would be, you know,
22 that's something you would look at, presumably,
23 periodically to make sure that it's still
24 appropriate, or if they're not, why not.

25 Q. All right. Is someone allowed to

4 (Pages 323 to 326)

Page 343

1 Right?

2 A. Yes.

3 Q. Okay. Were they also indicating
4 they didn't understand where the rest of it
5 came from, that is, the other 71 million?

6 A. I think at certain times that was
7 our sense. Like, you know, what's the 50?
8 There was just -- there just seemed like there
9 was confusion as to these reserve transfers.

10 Q. I'm trying to explore what you're
11 characterizing here as confusion.

12 First of all, it was, you say it
13 was our sense at times that they were saying
14 they did not know about all or some of the
15 elements of these reserve transfers; is that
16 right?

17 A. Yes.

18 Q. Who is "our"?

19 A. Myself, Robin.

20 Q. Robin Schaffer?

21 A. Robin Schaffer. I know there was
22 conversations with Al, because Al actually, I
23 think, looked through some of his files and was
24 able to find some documents to suggest that
25 there was some, you know, at least some

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1 A. I remember Buettner was at least in
2 the first one. And, you know, there was
3 questions, what's the 99, what's the 21, what's
4 the 28, okay, what's the 50?

5 And I think at one point there was
6 a -- I asked a question, you know, to Bill
7 saying, you know, is the firm changing their
8 opinion on, you know, how these were accounted
9 for? I believe I asked that question.
10 And there really wasn't much of an answer to
11 it.

12 Q. Well --

13 A. Or response.

14 Q. Was Buettner suggesting that he
15 didn't know about these reserve transfers
16 either?

17 A. Bill didn't really say much.

18 Q. All right. Was Kirstein in on
19 these discussions?

20 A. No, I don't think so.

21 Q. Okay. Were these reserve transfers
22 or components of them discussed with Amy
23 Frazier prior to the end of the 1997 audit?

24 MR. RYAN: Objection.

25 A. Yes.

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1 correspondence he was able to find on that, on
2 some of the transfers of reserves.

3 Q. You knew by the time these
4 meetings -- strike that.

5 Did you know by the time these
6 meetings were occurring that you're describing
7 here, these discussions were occurring, that
8 questions had been raised about the propriety
9 of the \$99 million in reserve transfers?

10 A. Yes.

11 Q. In that context you are having
12 discussions with representatives of Coopers &
13 Lybrand, right?

14 A. Yes.

15 Q. Included in those discussions are
16 representatives of PriceWaterhouse?

17 A. Yes.

18 Q. And you're saying that in the
19 course of those discussions and in front of
20 others, Amy Frazier is suggesting that she did
21 not know about these reserve transfers?

22 MR. RYAN: Objection.

23 A. Yes.

24 Q. Was Buettner in the room, too, or
25 was he part of these discussions?

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1 Q. Then when Amy Frazier was
2 suggesting at this meeting that she either did
3 not know or may not have known about these
4 transfers, did that surprise you?

5 A. Yes.

6 MR. RYAN: Objection.

7 Q. All right.

8 A. Just to set the picture. There was
9 questions about, first of all, in general, the
10 99 million. Then the pieces, you know, what's
11 the 50, what's the 21, what's the 28.

12 It was our sense that at times it
13 seemed like they didn't remember the 50, but
14 then it seemed like, okay, okay, I remember
15 that, I remember the 50, I remember the 21, I
16 believe, or at least it was on the bad debt
17 roll-forward schedule.

18 And then at the end, it seemed like
19 it focused on the 28, questions about knowing
20 about the 28 or having the documentation on the
21 28. And that's why we put this together at the
22 end.

23 After early on, it was pretty -- I
24 mean the information that my understanding was
25 provided, the 50 and the 21 sort of went off

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1 the table after early on. That was seemed to
 2 be, you know, there was no question at that
 3 point, but then it sort of boiled down to this
 4 28.
 5 Q. All right. In that context, you
 6 prepared Exhibit 321?
 7 A. Yes.
 8 Q. And the summary of the \$28 million
 9 of reserves are contained on the first page of
 10 321; is that right?
 11 A. Yes.
 12 Q. This is where it comes from, right?
 13 A. Yes.
 14 Q. These are the various Graduate
 15 entity reserves that were utilized to create
 16 the \$28.3 million of amounts to be transferred?
 17 A. Yes.
 18 Q. All right. Then what, for my
 19 benefit, are we looking at that is attached to
 20 this first page, for example? What is this
 21 document?
 22 MR. TYCKO: You're referring to
 23 0073?
 24 MR. WHITNEY: Yes. Thank you.
 25 A. It's a general ledger of Graduate

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1 hospital.
 2 Q. For the jury's benefit when,
 3 somebody is talking about in this case about
 4 the general ledger, this is what it looks like?
 5 A. Yes.
 6 Q. Or this is what one of them looks
 7 like?
 8 A. Yes.
 9 Q. And this is the general ledger for
 10 the Graduate hospital for the month ending
 11 5/31/97?
 12 A. Correct.
 13 Q. All right. Now, at the top of the
 14 summary list on the first page of 321, the
 15 first reserve discussed is MA reserve and it
 16 says, GL number 1201905, do you see that?
 17 A. Yes.
 18 Q. What is 1201905, what does that
 19 number mean?
 20 A. That's the general ledger account
 21 number.
 22 Q. Okay. So if one goes to a general
 23 ledger account number bearing the number
 24 1201905, one will see some reference to this
 25 reserve being transferred?

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1 MR. RYAN: Objection.
 2 A. Yes. No. It doesn't reference a
 3 reserve being transferred.
 4 Q. Thank you.
 5 A. It references a separate reserve
 6 account of which this was recorded in. And you
 7 see between the months, the reserve balance
 8 went down \$2 million.
 9 Q. Which means it went somewhere.
 10 MR. RYAN: Objection.
 11 A. Yes.
 12 Q. All right. Or it was --
 13 A. Or it was used.
 14 Q. Or it was used or it was written
 15 off or something?
 16 A. Something.
 17 Q. All right. And I notice toward the
 18 bottom of the page under patient accounts
 19 receivable there is an entry bearing that
 20 number that says, MA reserve. Do you see that?
 21 A. It's not an entry, it's an account.
 22 Q. It's an account, sorry. Bear with
 23 me.
 24 Can you walk us through that and
 25 show us what it shows?

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1 A. It just shows that that reserve
 2 balance decreased \$2 million.
 3 Q. I'm asking a more simplistic
 4 question. I prefer probably broader brush
 5 reading when I'm relaxing, so I'm not familiar
 6 with this kind of reading.
 7 The first column, current month,
 8 shows a negative balance, 360,604. What's that
 9 mean?
 10 A. That's the reserve balance.
 11 Q. It's --
 12 A. At the end of the month.
 13 Q. It is a liability totaling 360,604?
 14 A. Right.
 15 Q. Prior month, in that column, there
 16 is a negative balance, 2,360,604.
 17 A. Yes.
 18 Q. And that is?
 19 A. Prior month balance.
 20 Q. Of the same item?
 21 A. Same item.
 22 Q. Same account?
 23 A. Same account.
 24 Q. The variance is \$2 million; is that
 25 right?

10 (Pages 347 to 350)

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1 A. Yes.
 2 Q. What's the variance mean?
 3 A. The change in the account balance.
 4 Q. Okay. So what is does this mean,
 5 this \$2 million variance?
 6 MR. RYAN: Objection.
 7 Q. If you know.
 8 A. The \$2 million -- what that
 9 variance represents is that's how much the
 10 account balance changed between months.
 11 Q. Okay. What does this tell the
 12 reader of 321?
 13 MR. RYAN: Objection.
 14 Q. Why are you putting this in 321?
 15 A. We put this in the document to
 16 indicate that the MA reserve had been recorded
 17 in a separate account; that that was the
 18 balance in the account at a certain point in
 19 time. And then the balance was lower and the
 20 reduction was the exact amount that's presented
 21 on the summary schedule, which we said here,
 22 hey, \$2 million was used or transferred. And
 23 this was the account it was in.
 24 Q. I'm trying to get back to the most
 25 basic level. Tell me like I'm five years old,

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1 by you to put this particular page behind the
 2 summary sheet; is that right?
 3 A. Yes.
 4 Q. Did you do that because you
 5 believed it evidenced something?
 6 A. Yes. We put it in there because we
 7 thought this would demonstrate, hey, it was
 8 recorded in a separate account, a reserve that
 9 we believe they knew about, and that it had a
 10 higher balance at one point and now it had a
 11 lower balance. Therefore, this would be a form
 12 of documentation to suggest that that reserve
 13 had been utilized to a large extent.
 14 Q. You had not sneaked this
 15 \$28 million of reserve, or in this case this
 16 \$2 million of reserve, over to DVOG without
 17 entering it into the company's books; is that
 18 right?
 19 A. Nothing was snuck.
 20 Q. And that's what you're trying to
 21 show Coopers & Lybrand?
 22 A. Yes.
 23 MR. RYAN: Objection.
 24 Q. It was there to see in the general
 25 ledger when you looked at the general ledger?

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1 so what does this tell me as it relates to
 2 \$28 million of reserve transfers?
 3 A. It tells you --
 4 MR. RYAN: Objection.
 5 A. -- that there was a reserve out
 6 there that had been reduced. And that, you
 7 know, that's something an auditor may want to
 8 look at.
 9 Q. If an auditor wanted to look at it,
 10 you're showing by this document he could have
 11 found it?
 12 MR. RYAN: Objection.
 13 Q. Is that right?
 14 MR. RYAN: Objection.
 15 MR. WHITNEY: I'm only asking
 16 him -- I'm not asking him to speculate, and it
 17 may sound like I am. And if it does, the
 18 question is inartfully framed.
 19 Q. I'm asking this question from the
 20 standpoint of the fact that foundationally you
 21 put this document together as some sort of
 22 support for some position you were taking about
 23 the \$28 million of reserve transfers, right?
 24 A. Yes.
 25 Q. Okay. It was thought appropriate

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1 A. Yes.
 2 MR. RYAN: Objection.
 3 Q. If you looked at the general
 4 ledger?
 5 MR. RYAN: Objection.
 6 A. Yes.
 7 Q. Would a review of the general
 8 ledger be something that you would expect
 9 Coopers & Lybrand to do as part of its audit of
 10 AHERF?
 11 MR. RYAN: Objection.
 12 A. Yes.
 13 Q. And I am, again, asking you that
 14 question from your perspective of being both a
 15 former auditor for Coopers & Lybrand of the
 16 AHERF account and an employee of AHERF working
 17 with Coopers & Lybrand in their audit of the
 18 AHERF account.
 19 A. Yes.
 20 Q. Okay.
 21 MR. RYAN: I'm sorry. I don't know
 22 if that was a question.
 23 MR. WHITNEY: There was no
 24 question. He just answered the prefatory
 25 before I asked the question.

11 (Pages 351 to 354)

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1 A. I think there was a question.

2 Q. But now that the official has blown
3 the whistle and the parties are brought back
4 together, let me ask you the question that
5 stems from it.

6 Based upon that perspective, this
7 page here, this general ledger is something
8 that Coopers & Lybrand would ordinarily be
9 expected to reserve as part of their audit?

10 A. Yes.

11 MR. RYAN: Objection.

12 A. Whether this particular exact
13 single page, I can't say, but they were
14 provided general ledgers.

15 Q. All right. And once again, what we
16 are talking about here is changes in the
17 balance of the Graduate reserves during the
18 year; is that right?

19 A. Yes.

20 Q. Okay. Now, similarly, the PFMA,
21 there is a reference to -- I'm not going to go
22 through all of them for everybody's benefit,
23 but the PFMA there is a reference to general
24 ledger number 1201902.

25 Would that be found -- I don't --

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1 Q. You're right. You're right. Thank
2 you, Mr. Cancelmi.

3 And so forth, down the column,
4 either attached or if Coopers wanted to look at
5 them, are general ledger references to similar
6 reductions in these reserves; is that right?

7 MR. RYAN: Objection.

8 A. For some of them, yes, that's
9 the -- that was for some of these reserves,
10 that are summarized here we put copies of the
11 general ledger, which would indicate where the
12 reserves, the account reserves were in and that
13 they had been reduced.

14 Q. How about this 0074, the audit
15 update of 8/22/97. That's the second support
16 page behind 321.

17 Why is that included as part of
18 this package?

19 A. Because we thought from looking at
20 this audit update agenda there was a reference
21 to the PFMA contract.

22 Q. So?

23 A. Which sort of was our recollections
24 that it had been discussed with them. And then
25 when we saw it on this agenda, we said, well,

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1 you're right, I was looking at a second page
2 and it looks like the same page twice, but it's
3 not that either.

4 Is 120192 attached?

5 A. I'm sorry?

6 Q. I'm sorry. You're right.

7 MR. TYCKO: Look over at 075. I
8 think you're looking for the page that shows
9 the variance that PFMA.

10 MR. WHITNEY: Yes.

11 MR. TYCKO: It's 0075.

12 MR. TORBORG: I don't think so.

13 MR. WHITNEY: I don't either.

14 That's what I'm having the confusion about and
15 I apologize to everybody.

16 A. Yes, it is.

17 Q. Excuse me?

18 A. Yes, it is.

19 Q. It is?

20 A. Yes.

21 Q. 0075?

22 A. Yes.

23 Q. Has, in fact, reference to this
24 1201902 general ledger number.

25 A. Yes. Says, other reserves-PFMA.

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1 that seems to be an indication that it could
2 have been -- would have been discussed.

3 Q. In fact, you have seen a copy of
4 this very agenda with Kirstein's handwriting on
5 it, right, I believe it was marked yesterday --

6 A. I believe so.

7 Q. -- as Exhibit 1072. 1072, was that
8 the number you just showed me?

9 MR. TYCKO: Doesn't appear to be in
10 the witness's stack.

11 Q. That's an interesting revelation
12 that I'm going to have to try to figure out the
13 answer to during the next break.

14 But let me show you what was marked
15 yesterday as Exhibit 1072 and the second page
16 of 1072 shows what appears to be a copy of this
17 very document. Do you see that?

18 A. Yes.

19 Q. We talked about this yesterday.
20 You indicate that's Kirstein's handwriting?

21 A. Yes.

22 Q. Had you seen this document before,
23 this document being 1072, had you seen that
24 document before you put this audit update --

25 A. No.

12 (Pages 355 to 358)

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1 Q. -- memo here?
 2 A. You mean with Kirstein's notes?
 3 Q. Right.
 4 A. No.
 5 Q. The purpose for which you attached
 6 this to your Exhibit 321, this agenda, is to
 7 show that the PFMA contract was discussed --
 8 A. Yeah, we thought --
 9 Q. -- during an audit update meeting?
 10 MR. RYAN: Objection. Misstates
 11 the prior testimony.
 12 Q. Well, if it misstate it or not, let
 13 me give it another shot.
 14 Was one of the reasons why the
 15 August 22, 1997 audit update memo attached to
 16 this is -- it's attached to it because of the
 17 reference in Roman 2, right?
 18 A. Yes.
 19 Q. What is that telling Coopers?
 20 MR. RYAN: Objection.
 21 Q. If anything.
 22 A. What we were trying to demonstrate
 23 is we had thought it was discussed with Coopers
 24 and, in fact, we found this audit update
 25 agenda, which indicated that this PFMA contract

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1 Lybrand during the 1997 audit or what it was
 2 intended to tell PWC in '98.
 3 And it's also speculative about how
 4 somebody from Coopers & Lybrand would read such
 5 a schedule. Two separate problems.
 6 Q. The second problem was obviated by
 7 the question because the question asked what
 8 was it intended to tell them. And thank you.
 9 I've got to ask you more often, because you're
 10 very helpful to me.
 11 I'm referencing, when I'm talking
 12 about what it was intended to tell Coopers &
 13 Lybrand, to the period of time in which the
 14 memo was being -- or this document was being
 15 submitted and discussed. We've already talked
 16 about what Coopers & Lybrand was told or not
 17 told, saw or did not see in 1997, during the
 18 audit.
 19 In 1998 you put this together and
 20 you were intending to show something with this
 21 document, right?
 22 A. Uh-huh. Yes.
 23 Q. What were you intending to show?
 24 A. Well, this was a document that I
 25 believe had been prepared by Robin and her

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1 had been listed as one of the agenda items.
 2 So what we were trying to tell PWC
 3 was here, this is, we believe another
 4 indication that the PFMA reserve had been
 5 discussed.
 6 Q. All right. And Kirstein's note to
 7 that item is, where did it go, right?
 8 MR. RYAN: Objection.
 9 A. That's what the note says.
 10 Q. Thank you. The item that's got
 11 Bates number 0076 attached to it, which is also
 12 not a general ledger entry. Doesn't appear to
 13 be.
 14 You put this as part of this
 15 package together for Coopers & Lybrand in 1998
 16 as well, right?
 17 A. Yes.
 18 Q. Now, what's that telling -- what is
 19 that intended to tell Coopers & Lybrand, if
 20 anything?
 21 MR. RYAN: Objection.
 22 MR. WHITNEY: What's wrong with
 23 that question, just out of curiosity?
 24 MR. RYAN: It's unclear whether
 25 you're talking about what it told Coopers &

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1 group. And I believe these schedules were
 2 commonly provided to Coopers & Lybrand as part
 3 of the audit. And its a summary of various
 4 contractual allowance balances or reserve
 5 balances.
 6 And this schedule showed that as of
 7 March, there was this excess bad debt reserve
 8 of this million 20. And there was a balance
 9 early on. And then at the end of June, the
 10 balance had essentially gone down to almost
 11 zero. There was couple hundred dollars left in
 12 the account.
 13 But it was the same logic. We were
 14 trying to indicate that this may be another
 15 document to suggest that they had information
 16 available to them that would indicate that the
 17 reserve had been reduced.
 18 Q. And this would relate to the third
 19 item on the Graduate system reserve's list,
 20 excess bad debt?
 21 A. Yes.
 22 Q. Okay. Now, when you gave this --
 23 did you give this 321 to Coopers?
 24 A. Yes.
 25 Q. Who at Coopers?

13 (Pages 359 to 362)

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1 A. There was a meeting in my office.
 2 Robin was in there, I think Rob Cepielik was in
 3 there, and I think Mel. There was one other
 4 person in there. I think it was Mel, but I
 5 can't say for certain.
 6 Q. Who did you give the document to?
 7 All of them?
 8 A. I believe so.
 9 Q. What was the response, if any, of
 10 Coopers & Lybrand to this document?
 11 A. I'll be honest, I remember after
 12 the meeting, me and Robin were talking. It
 13 didn't seem like they even paid much attention
 14 to the document. We -- they -- for whatever
 15 reason we were getting together to go through
 16 some things, I guess a status of where they
 17 stood.
 18 And we provided this document to
 19 them. Said, hey, we know it seems like there's
 20 been questions about this 28.3 million and
 21 we've put this document together to try to
 22 suggest that here's some documentation that's
 23 out there that they may have looked at to
 24 indicate that these reserves had been reduced
 25 and, therefore, transferred over either to --

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1 was at least in part that concerns had arisen
 2 about the \$99 million of reserve transfers; is
 3 that right?
 4 A. Yes.
 5 Q. And the question is whether or not
 6 the 1997 year end financials had to be
 7 restated; is that right?
 8 A. Yes.
 9 Q. Now, in that context, Coopers &
 10 Lybrand is raising questions about whether or
 11 not they knew about these reserve transfers; is
 12 that right?
 13 MR. RYAN: Objection.
 14 A. It seemed like they were asking
 15 questions as to what these reserves related to.
 16 Q. And one of the people asking such
 17 questions was Amy Frazier?
 18 A. Yes.
 19 Q. All right. You indicated that you
 20 were surprised that Amy Frazier was asking
 21 those questions; is that right?
 22 A. Yes.
 23 Q. Was surprise the only emotion you
 24 had at that point?
 25 A. I don't know all my emotions. I

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1 for this 28.3 million.
 2 And I don't remember much of a
 3 dialogue on this. It seemed like they were
 4 pretty much done with their review at that one
 5 point in time.
 6 In fact, I believe that was the
 7 meeting where they said they were pretty much
 8 wrapped up. And I think I asked them, well,
 9 have you talked to Al Adamczak or have you
 10 talked to Chuck Morrison? And I think it's
 11 this meeting where it seemed like, I'm not --
 12 they seemed surprised or, well, who was Chuck
 13 Morrison?
 14 And I asked them, have you talked
 15 to Chuck Morrison, he's the chief financial
 16 officer. He certainly can provide some
 17 background on, you know, these transactions
 18 that you're examining.
 19 And that was pretty much it. The
 20 meeting pretty much wrapped up.
 21 Q. Was it Amy Frazier who asked who
 22 Chuck Morrison was?
 23 A. No. I don't think Amy was in
 24 there.
 25 Q. The context of these discussions

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1 was -- we were surprised, that it seemed like
 2 they were indicating that they weren't aware of
 3 at least some of these reserves.
 4 At times others, they seemed to
 5 indicate they remembered others that they had
 6 not. And we were, you know, we were definitely
 7 surprised. And that's when we, you know,
 8 decided to try to identify documentation that
 9 we could provide them, you know, to indicate
 10 that, hey, I mean this was out in the open.
 11 And something that wasn't, you know, hidden
 12 from them or anything like that.
 13 And Al had had conversations with
 14 me during this time that, you know, it seems
 15 like there's questions as to what they knew and
 16 what had been discussed with them. And I
 17 believe even Allegheny's external legal
 18 counsel, Hahn Loser, had indicated the same
 19 thing to me.
 20 Q. Don't care about Hahn Loser. I'm
 21 asking about Coopers & Lybrand.
 22 A. I'm putting it into context. I am
 23 answering your question. This is all -- I'm
 24 hearing this from a number of different
 25 sources, including, I think Al at one point

14 (Pages 363 to 366)

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1 MR. RYAN: Objection.
 2 A. I can't remember. I know I
 3 provided -- I would have provided my comments.
 4 Q. Do you recall proposing language
 5 for inclusion in the 1996 audit letter that
 6 went beyond what is in here and contained more
 7 specific discussion of problems in the area of
 8 accounts receivable?
 9 MR. RYAN: Objection.
 10 A. Language I would have suggested
 11 that didn't make it into the letter?
 12 Q. Yes, that deals with problems in
 13 accounts receivable.
 14 A. Boy, I can't remember. I know I
 15 would have provided comments. Whether
 16 everything got in there, I don't know. I don't
 17 remember.
 18 Q. Well, I'm talking about problems
 19 that if they're not in there, you might
 20 remember. And if you don't remember, then you
 21 don't remember.
 22 A. I really --
 23 Q. I'm trying to find out whether or
 24 not you were involved in proposing language for
 25 Coopers' management letter that discussed

1 experienced individuals, so you, you know,
 2 there's a lot of times, and I think if there's
 3 any copies of the drafts I would have reviewed,
 4 you would have seen that I probably would have
 5 had a number of different comments and
 6 suggested language changes, but I don't
 7 remember every single one, certainly.
 8 Q. But you do recall occasions in
 9 which you proposed language to Coopers &
 10 Lybrand addressing the issue of accounts
 11 receivable, right?
 12 A. Yeah, I think so, sure.
 13 Q. Addressing the issue of problems
 14 related to accounts receivable?
 15 A. Or issues. Whatever the case may
 16 be.
 17 Q. With that foundation, do you
 18 remember whether or not you proposed such
 19 language in 1996?
 20 A. I think I did.
 21 Q. Do you remember whether or not your
 22 proposals all made it into the management
 23 letter?
 24 A. I've answered that I think three or
 25 four times.

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1 problems in the area of accounts receivable at
 2 year end 1996 that did not make it into the
 3 management letter.
 4 MR. RYAN: Asked and answered.
 5 A. I don't remember. My recollection
 6 was that the first draft we saw seemed to be a
 7 little light and I thought, from thinking about
 8 the right year, we provided language to beef it
 9 up. Whether every single suggestion that I
 10 made or Steve might have made or Al or Chuck
 11 Morrison or whoever else, whether every single
 12 suggestion in there, I don't remember.
 13 Q. You remember one occasion in which
 14 you thought the language discussing accounts
 15 receivable was a little light and you and
 16 perhaps Spargo proposed language to beef it up?
 17 A. It could --
 18 MR. RYAN: Objection.
 19 A. It could have been me. It could
 20 have been Steve's language.
 21 Q. But somebody proposed language?
 22 MR. RYAN: Objection.
 23 A. That wasn't necessarily -- when you
 24 get a first draft of a letter, you know,
 25 oftentimes they're drafted by the less

1 Q. Try a fifth.
 2 A. I don't remember if every single
 3 thing made it.
 4 Q. Very good. I believe we talked
 5 about this yesterday, but do you recall whether
 6 or not at some point during the 1996 -- the
 7 preparation of the 1996 financial statements a
 8 determination was made that DVOG's allowances
 9 for bad debt were insufficient?
 10 A. Repeat the question again, I'm
 11 sorry.
 12 Q. Let me headline it. We're talking
 13 about -- we're going to talk about now
 14 \$17.5 million of reserves being applied to
 15 AHERF bad debt in 1996.
 16 A. Okay.
 17 Q. In that general subject area.
 18 A. Okay.
 19 Q. Do you recall that at some point
 20 during the 1996 preparation, finalization of
 21 the 1996 AHERF financial statements a
 22 determination was made that DVOG's bad debt
 23 allowance was insufficient?
 24 A. Yes, I do remember that. There
 25 was, like I said yesterday, there was a lot of

22 (Pages 395 to 398)

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1 analysis, it seemed like, that was taking place
2 over and above what at least seemed to have had
3 occurred in the prior audit. Maybe some more
4 information requests or data requests.

5 And I think that was a
6 by-product -- or the 17 and a half million
7 dollars of adjustments, I think, may have been
8 a by-product of some of the additional
9 procedures that had been performed.

10 Q. Let me show you a document that has
11 previously been, I'll bet, shown to you by
12 other parties interested in the affairs of
13 AHERF, but ask you whether or not you can
14 recognize it.

15 I'm going to need to mark this one
16 with a new exhibit number.

17 - - - - -
18 (Thereupon, Exhibit 1073 was marked
19 for purposes of identification.)
20 - - - - -

21 Q. Showing you what has now been
22 marked as Deposition Exhibit 1073, I wonder if
23 you can identify this document, if you're able
24 to identify this document?

25 MR. RYAN: Objection.

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1 A. Yes.

2 Q. Whose handwriting is this?

3 A. Mine.

4 Q. Man. Can you tell us what this is?

5 A. It's a summary of adjustments that
6 were made to the DVOG hospitals bad debt
7 reserves.

8 Q. Okay. Does it show, to move this
9 along, that \$17 and a half million was -- or
10 the accounts receivable balances were adjusted
11 upward by \$17 and a half million?

12 MR. RYAN: Objection.

13 A. It shows that the adjustments of
14 \$17 and a half million were made to the AR
15 reserve account, yes.

16 Q. And then under item A, there's a
17 note A under that \$17 and a half million there,
18 the total of the adjustments. And the footnote
19 references, I gather, to these specific items
20 that are below it, right?

21 A. Yes.

22 Q. What are these items?

23 A. These are the reserves that were
24 out there that management determined could be
25 used to increase the reserves by the 17 and a

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1 MR. WHITNEY: They're always good,
2 so let me ask.

3 MR. RYAN: You've changed from if
4 he recognizes it to whether he can identify it.
5 The only thing I want to be clear on is whether
6 this witness can lay any foundation for this
7 document, since I doubt it.

8 MR. WHITNEY: I like your question
9 better and I can't stand it when I read the
10 transcripts and I see that I have done that,
11 because I'm thinking about something else when
12 I'm doing it.

13 Q. First of all, do you recognize this
14 document?

15 A. I can't say that I do. I may have
16 seen it.

17 Q. May have seen it is the best you
18 can do?

19 A. Yes.

20 Q. Then never mind my previous
21 comments and let me show you a document that
22 has been marked as Defendant's Exhibit 122
23 instead, because maybe I'll do better with this
24 one.

25 Do you recognize this document?

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1 half million and these listed where some of the
2 reserves were.

3 Q. Now, for jury's benefit, since
4 we've been talking for the last day and a half
5 about reserve transfers, this had nothing to do
6 with the Graduate reserves and those
7 \$99 million, right?

8 A. No.

9 Q. And actually we're talking about a
10 period of time earlier than that discussion,
11 right?

12 A. Yes.

13 Q. Management decided to apply these
14 reserves to the bad debt allowance account; is
15 that right?

16 A. Yes.

17 Q. Do you remember where the
18 suggestion came from to apply these reserves to
19 the account?

20 MR. RYAN: Objection.

21 Q. Maybe too broad. Who made the
22 determination to apply reserves to DVOG's
23 allowance for bad debt in 1996?

24 MR. RYAN: You mean these
25 particular reserves or just increase the

23 (Pages 399 to 402)

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1 allowance?

2 Q. That will do.

3 A. These particular -- it was my
4 understanding Allegheny management.

5 Q. Now, see, Mr. Ryan is tricky and
6 smart and he has led me, a weaker mind, down a
7 road I don't want to go. So let me back up
8 one.

9 Who made the decision to apply
10 reserves to the DVOG allowance for doubtful
11 accounts --

12 MR. RYAN: Objection.

13 Q. -- in connection with the 1996
14 audit? That's a question one step removed
15 backward from the question I just asked you.

16 A. I don't know specifically. It was
17 my understanding that Spargo was involved and I
18 assume McConnell and Chuck Morrison, but I
19 can't say for certain.

20 Q. How about people at Coopers, do you
21 know whether or not Coopers were involved in
22 the discussions about conceptually using
23 reserves to augment DVOG's allowance for bad
24 debt?

25 A. I believe they were.

1 A. Yes.

2 Q. Okay. And did that decision
3 include Coopers?

4 A. I thought it did, but I really -- I
5 believe Spargo and McConnell and Morrison would
6 have been more involved.

7 Q. Okay. This is an important point
8 that we need to make. Are you saying, if it
9 did involve Coopers, you weren't in on that?

10 A. No, not necessarily saying that. I
11 just don't -- just seemed like Coopers was
12 doing more work, working, you know, doing
13 additional work over and above, like I said,
14 what they normally would have done.

15 It seemed like they were having
16 conversations, whether it was with Spargo or
17 McConnell or whoever else. They were obviously
18 asking us for data, you know, in our
19 department.

20 And it seemed like at some point, I
21 guess it would have been Steve saying I think
22 there needs to be more -- based on what, you
23 know, what's being concluded, there needs to be
24 more reserves recorded. And therefore, you
25 know, there are reserves out there and then

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1 Q. All right. I want to ask you some
2 questions to try to focus on this process.

3 Did there come a point in time
4 before that decision -- a decision was made to
5 apply reserves, did there come a point in time
6 when it was determined that the reserve or the
7 allowance for doubtful accounts at DVOG was
8 understated?

9 A. Yeah. I mean the background on
10 this, my memory of the background is that the
11 books for June of '96 were closed by Allegheny
12 management. They did not include the \$17 and a
13 half million of adjustments. So the initial
14 closing I believe did not include these
15 adjustments.

16 And then during the course of --
17 after the initial close, as management was
18 further reviewing the bad debt reserves and
19 Coopers & Lybrand was reviewing those reserves
20 as part of their audit, ultimately it was my
21 understanding there was a decision made that
22 there needed to be more reserves recorded.

23 Q. All right. Stop you right there.
24 A decision was made, we need to record more
25 reserves, right?

1 there was a discussion on where the reserves
2 could be -- the source of the reserves to
3 support recording the additional 17 and a half.

4 Q. Let me put this in context. You
5 say, "and it seemed like at some point, I guess
6 it would have been Steve saying I think there
7 needs to be more -- based on what, you know,
8 what's being concluded, there needs to be more
9 reserves recorded. And therefore, you know,
10 the reserves out there, and there was a
11 discussion of where the reserves could be, the
12 source of the reserves to support recording the
13 additional 17 and a half."

14 There are a couple of concepts in
15 there, but right now I'm focusing and we're
16 going to get to other one, but right now I'm
17 focusing on that language that says, based on
18 what's being concluded, there needs to be more
19 reserves recorded.

20 It's the part about the concluded
21 that I'm trying to find out now. Coopers is
22 out doing an audit that includes an audit of
23 the allowance for doubtful accounts, right?

24 A. Yes.

25 Q. Management is doing that which

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<p style="text-align: right;">Page 415</p> <p>1 MR. TYCKO: Just to be clear, are 2 you asking him whether or not he would expect 3 to see a schedule like that or whether the 4 schedule would rightly exist? 5 MR. TORBORG: I think I asked 6 whether he would expect to see such a schedule. 7 A. You know, it wouldn't surprise me. 8 Q. I want to go back and ask you some 9 different questions to East Falls methodology 10 that we talked about earlier? 11 A. Yes. 12 Q. And I want to mark a new exhibit. 13 - - - - - 14 (Thereupon, Exhibit 1074 was marked 15 for purposes of identification.) 16 - - - - - 17 Q. We'll mark this as Exhibit 1074. 18 For the record, this is a document bearing 19 Bates DC45 25, page 22. 20 I would like to represent to you, 21 Mr. Cancelmi, that the Bates label DC indicates 22 it came from your files. 23 A. Okay. 24 Q. And my first question is: Do you 25 recall seeing this document?</p>	<p style="text-align: right;">Page 417</p> <p>1 companies and it was separated between maybe a 2 thousand dollars would come from Blue Cross and 3 then maybe a hundred from the patient, that 4 1100 total may be classified as a Blue Cross 5 receivable, but the hundred dollars patient 6 balance would have been the balance that would 7 have maybe had a bad debt reserve -- 8 Q. Okay. 9 A. -- estimated on. 10 Q. Okay. So it's the patient 11 liability for all other payor classes is, can 12 we also say that's sort of the co-pay? 13 A. It could be a co-pay or deductible 14 or whatever the lingo would be for that 15 insurance company maybe. 16 Q. Fair enough. I'm going to mark as 17 our next Exhibit 1075. 18 - - - - - 19 (Thereupon, Exhibit 1075 was marked 20 for purposes of identification.) 21 - - - - - 22 Q. For the record, this is a document 23 Bates labeled CL001180 to 93. 24 Now, I take it given this is a 25 Coopers work paper, you've never seen this</p>
<p style="text-align: right;">Page 416</p> <p>1 A. I believe so. 2 Q. Now, do you see in the -- you can 3 look through the rest of the document, if you 4 want, but I'm just going to ask you about the 5 footnote three about a third of the way down 6 the page underneath MCP. Do you see where it 7 says, "reserve calculated on all the self-pay 8 balances and only the patient liability 9 balances for all other payor classes," right? 10 A. Yes. 11 Q. Now, I think Mr. Whitney earlier 12 referred to only reserving self-pay balances. 13 And I believe I heard an objection from 14 Mr. Ryan. 15 Would it be fair to say that you 16 believe the MCP methodology was only reserving 17 self-pay balances and the patient liability 18 balances on other payor classes? 19 MR. RYAN: You mean as part of the 20 bad debt allowance? 21 MR. TORBORG: Yes. 22 A. I mean I believe that statement is 23 accurate. If they were balances sitting in the 24 self-pay category or I think the billing 25 system, if amounts were owed from insurance</p>	<p style="text-align: right;">Page 418</p> <p>1 document before? 2 A. I may have during some of these 3 investigations. I can't say for certain. 4 Q. But you wouldn't have seen it 5 during the time of the '97 audit, or '96 audit? 6 A. I don't know. I mean some of these 7 schedules that are behind here are schedules 8 from Allegheny, so I probably would have seen 9 some of these schedules. 10 Q. Okay. 11 A. Based on -- this is based on using 12 the Hahnemann methodology. 13 Q. Do you have an understanding after 14 saying that what this document is attempting to 15 do? 16 A. On the first page it says the bad 17 debt analysis at June of '96 using the 18 Hahnemann Hospital, that's that HUH, that's 19 what that meant, methodology. So I mean I may 20 have seen some of these schedules. I couldn't 21 say for certain. 22 Q. Do you recall any discussion with 23 anyone from the Coopers audit team that they 24 were looking at the adequacy of the MCP and 25 EPPI reserve balances by using the Hahnemann</p>

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<p style="text-align: right;">Page 419</p> <p>1 University Hospital methodology?</p> <p>2 MR. RYAN: Objection.</p> <p>3 MR. TORBORG: What's the objection?</p> <p>4 MR. RYAN: These are estimates. So</p> <p>5 what's being assessed reasonableness, not</p> <p>6 accuracy.</p> <p>7 A. Generally speaking, I knew, like I</p> <p>8 said earlier, that there was some questions</p> <p>9 regarding East Falls methodology and, you know,</p> <p>10 compared to how the methodologies being used at</p> <p>11 the other Allegheny hospitals.</p> <p>12 And, you know, I guess I would</p> <p>13 remember that either they did the calculation</p> <p>14 or they asked, they would have asked Robin, I</p> <p>15 guess, to try to run the numbers through -- run</p> <p>16 East Falls, some of their numbers through a</p> <p>17 methodology that was similar to Hahnemann.</p> <p>18 And there's an indicator on the</p> <p>19 first page that says, PBC, which I believe</p> <p>20 meant that the schedule would have been</p> <p>21 prepared by the client. I mean I guess Robin</p> <p>22 or someone on her staff may have run the</p> <p>23 numbers or input the numbers in here.</p> <p>24 Q. So you think based on the PBC</p> <p>25 notation that Coopers requested that AHERF run</p>	<p style="text-align: right;">Page 421</p> <p>1 Q. I wanted to ask you not to assume</p> <p>2 conversations you may have had given this</p> <p>3 document, but whether you have any specific</p> <p>4 recollection of any conversations --</p> <p>5 A. I can't remember.</p> <p>6 Q. -- about this.</p> <p>7 A. I can't remember any specific</p> <p>8 conversations.</p> <p>9 Q. I also want to follow up on</p> <p>10 something you just said. You said that Chuck</p> <p>11 Morrison's staff had originally prepared</p> <p>12 these --</p> <p>13 A. Not this --</p> <p>14 Q. -- calculations?</p> <p>15 A. Not this schedule.</p> <p>16 Q. Not this schedule, but were they</p> <p>17 originally charged with assessing the adequacy</p> <p>18 of the bad debt reserves at one point in time?</p> <p>19 A. They were -- before some of the</p> <p>20 accounting processes were transferred from</p> <p>21 Philadelphia to Pittsburgh, when they were out</p> <p>22 in Philadelphia, Chuck was responsible for --</p> <p>23 his staff was responsible for preparing the</p> <p>24 financial statements, similar to our</p> <p>25 department.</p>
<p style="text-align: right;">Page 420</p> <p>1 these calculations?</p> <p>2 A. Yes.</p> <p>3 Q. Do you recall discussing the</p> <p>4 results of those calculations with anyone from</p> <p>5 Coopers?</p> <p>6 A. Specifically, not -- I couldn't say</p> <p>7 for certain. I mean I remember it being an</p> <p>8 issue, so I assume there was some type of</p> <p>9 conversation about it.</p> <p>10 Q. Do you remember talking about that</p> <p>11 issue with anyone internal to AHERF?</p> <p>12 A. Oh, yeah. I mean I guess with</p> <p>13 Robin, because, you know, her or someone on her</p> <p>14 staff would have had to do it. I assume Steve,</p> <p>15 because he would have been there at that time.</p> <p>16 And I don't know if there was any conversations</p> <p>17 with Chuck Morrison or not.</p> <p>18 When Chuck Morrison had</p> <p>19 responsibility for preparing a financial</p> <p>20 statements, or his staff did, before Spargo</p> <p>21 took over that responsibility, they would have</p> <p>22 been using the same methodology that would have</p> <p>23 been used by our department with a carryover.</p> <p>24 We were using the same methodology that Chuck</p> <p>25 Morrison's staff was using, if I remember.</p>	<p style="text-align: right;">Page 422</p> <p>1 And Chuck had the same role. He</p> <p>2 was the chief financial officer, so he would</p> <p>3 ultimately approve the financial statements.</p> <p>4 The only difference was that instead of having</p> <p>5 staff accountants prepare the financial</p> <p>6 statements, like our department did, that those</p> <p>7 staff accountants, our department, now was</p> <p>8 under Steve Spargo as opposed to reporting up</p> <p>9 to Chuck Morrison.</p> <p>10 Q. Do you recall the fiscal year that</p> <p>11 people under you and the AHERF centralized</p> <p>12 accounting office took over the assessment of</p> <p>13 the adequacy of the bad debt reserves at DVOG?</p> <p>14 A. We took over the preparation and</p> <p>15 the calculations and the consolidation of the</p> <p>16 accounting departments, I believe it was in</p> <p>17 fiscal '95.</p> <p>18 Q. So prior to that, this was being</p> <p>19 done by some -- this assessment was being done</p> <p>20 by someone at Chuck Morrison's staff?</p> <p>21 A. Yes.</p> <p>22 Q. Do you remember who or --</p> <p>23 A. Probably would have been a number</p> <p>24 of different people.</p> <p>25 Q. Do you recall who would have been?</p>

28 (Pages 419 to 422)